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**ROUND TABLE ON "TEN YEARS OF TRADE LIBERALISATION IN TRANSITION
ECONOMIES"**

BULGARIA'S EXPERIENCE WITH TRADE LIBERALISATION

Paris, 10-11 July 2000

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Introduction

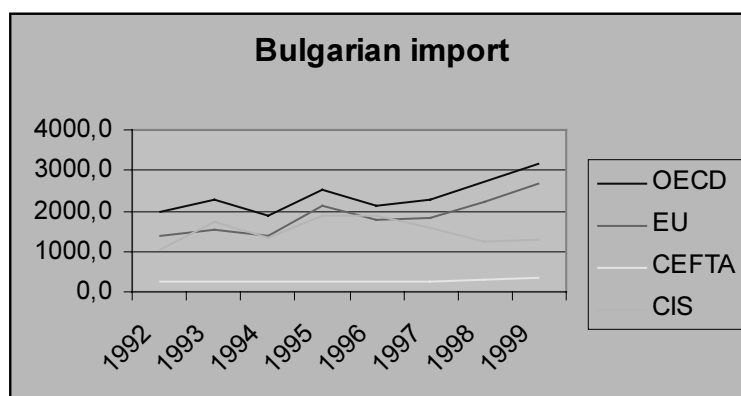
1. Bulgaria is a small country and its largely open economy (with foreign trade turnover representing 80% of GDP) could hardly survive without broad access to international markets. The limited national market and export-oriented economy need a stable trade environment based on predictable regulations. To be competitive on international markets and integrate efficiently into the world economy and trade, the country has to establish an adequate trade policy and adopt international trade disciplines and requirements.

2. Bulgaria started its transition to a market economy with industrial specialisation patterns that resulted from bilateral and multilateral co-operation agreements concluded within the framework of the Council for Mutual Economic Assistance (CMEA). As a consequence, Bulgaria's exports were dominated by machine building, industrial chemistry, pharmaceuticals, light industry (e.g. food and beverages, clothing, footwear, etc.), metals, fuels and electronics. This export potential was mainly directed towards CMEA countries, where these products were subject to very limited international competition. Thus, even though the Bulgarian economy was an open one (with the share of exports in the GDP of 34% by the end of the 1980s), its manufacturing sector was narrowly specialised and its exports directed mainly to CMEA partners (representing more than 80 % of total exports).

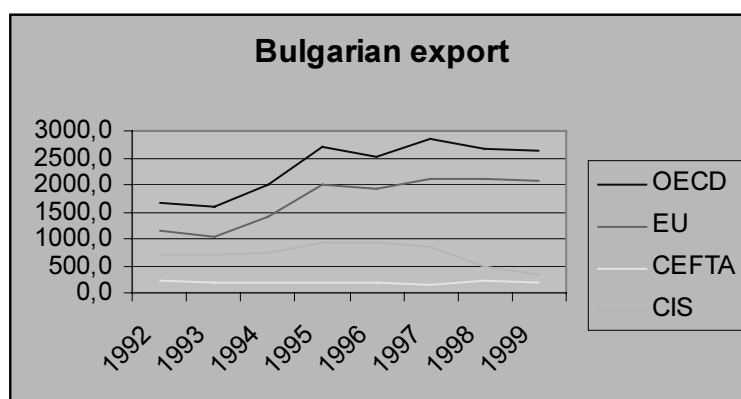
3. The past system of regional co-operation created a trade regime, based on strong trade protection and relative isolation of participating countries from the rest of the world market. Trade patterns were characterised by the generally mediocre quality of processed goods and a considerable deviation from world industry standards. Regional price levels of raw materials and energy were relatively low compared to world prices, while price levels of machines and equipment were relatively higher. Bulgarian foreign trade was geared to the large demand in the Soviet Union for agricultural products and foods. Bulgaria also produced and exported some categories of high technology electrical, electronic and transportation equipment, as Western export controls restricted the access to this equipment to former socialist countries.

4. From the beginning of the transition period, Bulgaria pursued two major objectives: expand its trade with Western European countries and promote regional co-operation with other partners, including within free trade areas. This trade policy required the development of an open market economy and entailed price and trade liberalisation. The major steps in this strategy were Bulgaria's accession to the WTO, the entry into force of the Europe Agreement, membership in CEFTA and participation in some other free trade agreements, such as with EFTA, Turkey and the Former Yugoslav Republic (FYR) of Macedonia. All these bilateral and plurilateral initiatives created an adequate legal and regulatory basis for Bulgaria's foreign economic relations. By providing for a gradual phasing out of tariff and non-tariff barriers, preferential trade agreements allowed for expanding Bulgaria's market access to other countries.

5. In 1992-1995, Bulgaria's exports grew rapidly. Such developments were possible because of the fundamental changes in the country's economic and trade policy, in particular the privatisation process, successful reorientation of exports from traditional partners to the EU market, the elimination of the foreign trade monopoly and the introduction of international trade disciplines. However, in 1996-1997, this favourable process was interrupted, due to the currency and financial sector crisis as well as limited export competitiveness. With the introduction of a currency board in mid-1997 and the implementation of radical structural reforms, Bulgaria's macro-economic situation improved. Foreign trade nevertheless suffered from several external shocks, in particular the Asian and Russian financial crises, the stagnation in world markets, and the Kosovo conflict. After a decrease in 1998, Bulgarian exports have started to slightly grow again since mid-1999.

Figure 1: Developments in Bulgarian imports (1992 - 1999)

Source: Table 3

Figure 2: Developments in Bulgarian exports (1992 - 1999)

Source: Table 2

I. Trade liberalisation process in Bulgaria

1.1 Price liberalisation

6. In the last 10 years, Bulgaria's price policy has undergone important changes. The first step in eliminating administrative controls and making prices determined by market conditions was to abolish the so-called "contract pricing system" and the control over retail price margins. In view to further encourage competition and implement the commitments under the IMF and the World Bank programmes, the government lifted the mandatory profitability rates and profit margins for the basic food products and introduced a mechanism of free contracting of prices between producers, resellers and consumers. State regulation of fuel prices was also removed. The liberalisation of remaining agricultural products' prices and the elimination of trade restrictions in this area were also gradually pursued. In general, it can be considered that most prices in Bulgaria are at present supply and demand-based.

7. Government price regulations are now limited to ensuring that natural monopolies cover their production costs and earn a minimum profit. They apply in particular to the following goods and services: electricity, coal, central heating, gas, telephone, postal services, and cigarettes. Medicines are subject to partial controls, which consist of monitoring and imposing certain restrictions as regards maximum profit margins. With the abolition in July 1999 of the Price Act, which legalised state intervention in price setting, all prices (with the exception of the ones mentioned above) are freely determined by the market.

8. The share of administered prices in the consumer basket amounts to 14%, which corresponds approximately to the situation in the first-wave candidate countries for EU accession. As many other countries have done, Bulgaria introduced the value-added tax. After the removal of VAT exemption for six food categories in January 1999, all goods, with the exception of medicines, are now subject to a single 20% VAT rate. The levelling and unification of the VAT rates mean further reduction of administrative price controls. The main regulatory authority is the State Commission on Commodities and Wholesale Markets.

9. Important progress has also been achieved in clarifying regulations for commercial activities, especially in the area of competition policy developed in line with EU practices. The Law on Protection of Competition, adopted in May 1998, deals in particular with monopolistic activities, unfair business practices, copyright rules and defines the prerogatives of the Commission for the Protection of Competition and the role of other governmental bodies in this area. The Law on Consumer Protection and Rules of Trade entered into effect in July 1999. It guarantees the rights and economic interests of consumers and establishes a general framework for corporate behaviour in compliance with EU norms.

10. The process of developing an open market economy and a more competitive environment is still being pursued and focuses at present on liberalisation in the field of energy, telecommunications and transport. The related regulations, specifying the concrete modalities of this process, have been already adopted. The immediate objective is to increase competitive pressures at the domestic market and then initiate a deeper restructuring of domestic natural monopolies.

1.2 Foreign trade regime

11. Bulgaria's trade policy is an integral part of the country's strategy for economic stability and balanced economic development. The main task has been to reconcile the need to increase international competitiveness and the objective to avoid high unemployment and drastic decrease in incomes of the population. The new trade regime has been gradually implemented with the emphasis on phasing out of various quantitative limitations and other trade restrictions.

12. Until 1998, export and import tariffs were frequently adjusted depending on the emergence of shortages or surpluses of certain goods. For example, Bulgaria introduced bans on exports of grains, duty free imports of eggs, cheese and powdered milk for the need of the food industry and lowered temporarily duties on imports of fresh or frozen beef, pork and poultry. These measures helped improve, in the short term, the situation in the domestic agricultural market and contain the inflationary pressures. Following the commitments to IMF and World Bank, Bulgaria abolished in 1998 the temporary export fees levied on exports of sunflower seed, cooking oil and processed timber and eliminated in January 1999 the export fees on live cattle, skins, wool, paper, metal scrap and metal products.

13. By completing these measures, Bulgaria abandoned all quantitative restrictions and bans on exports of agricultural products and thus accomplished a substantial step towards the further liberalisation of its foreign trade regime. Starting January 2000, no export fees are applied. Remaining quantitative controls are applied under international agreements providing for the use of quotas regulated through the

system of a non-automatic licensing regime. The government issues permits for transactions concerning a limited number of goods subject to the protection of the life and health of humans, the flora and the fauna.

14. The use of non-tariff measures is now strictly codified. Any bans on exports and imports should be based either on a law, on international regulations or special governmental acts. The exports and import licensing is solely used for monitoring trade and the range of products covered by this regime has been considerably reduced. Licensing for imports, exports or transit of certain categories of goods is used exclusively for protecting public morals, public order and national security, for safeguarding national artistic, historical and architectural masterpieces. The procedures for issuing certificates has been streamlined, in particular the time period for issuing licenses was considerably shortened (currently two days) and the number of bodies responsible for their administration reduced.

15. Bulgaria's foreign trade regime was further liberalised in January 2000. As a result of the removal of certain legal provisions, licensing was replaced by registration of transactions involving exports or imports of precious metals and gemstones and exports of unprocessed timber. Following the recent review of existing laws and regulations, 31 licensing procedures were already removed and some 100 other different permits will be lifted soon. As a result, the list of products subject to different permits and registration has been considerably shortened. In the longer term, this should contribute to improve the general business environment in Bulgaria.

16. The previous registration system also served for collecting information on exports and imports (particularly of sensitive goods) and facilitated an earlier treatment of the customs statistics. It will be replaced by a new integrated system for processing customs statistical information, which should allow for monitoring of trade flows of products considered sensitive in the context of the domestic market. The first stage of the integrated customs information system started to be operational recently and, by the end of the year, this system will cover 90% of the relevant turnover. All 120 Bulgarian customs offices will become part of the system by the end of 2002, when the process of the computerisation of customs services will be achieved.

1.3 Customs tariffs

17. A new Customs Act standardises the customs code, restructures the customs regime and regulates customs procedures. This law created a code consistent with the EU customs code and simplified the reporting and processing requirements. The European Commission has concluded that the new Bulgarian customs code, which entered into force in January 1999, "is in large parts identical to the Community Customs Code and further amendments are foreseen to obtain full compliance."¹

18. The Bulgarian customs tariff is based entirely on the Harmonised Commodity Description and Coding System of the Customs Co-operation Council, Brussels. The customs tariff consists of two columns: the first one refers to MFN rates, and the second one provides preferential GSP treatment. In addition, Bulgaria applies tariff quotas with reduced import duties in accordance with its WTO obligations and lower customs duties on imports from the EU, EFTA, CEFTA, Turkey, and the FYR Macedonia.

19. The simplification of the tariff regime involved a reduction in the number of tariff bands, the diminution of tariff rate dispersion and the adjustment of certain tariff levels. In line with Bulgaria's commitments under the three-year agreement with the IMF and with the WTO, the average MFN rates and the maximum customs duties are subject to annual reductions.

¹ 1999 Regular Report From the Commission on Bulgaria's Progress Towards Accession, p.53

20. As of the beginning of 2000, the average MFN rate was 13.88% (as compared to 15.2% in 1999 and 17.85% in 1998). For industrial goods, the average MFN rate is 10.99% (12.56% and 15.25% in 1999 and 1998, respectively) and for agricultural products, 24% (24.61% in 1999 and 27.31% in 1998). It is important to note that industrial goods represent some 90% of the country's imports. At present, the maximum customs rate is 30% for industrial goods and 74% for agricultural products. The number of different customs rate levels has been reduced to 25.

21. The highest duties apply to industrial goods that are manufactured in Bulgaria (e.g. lighting, furniture, glassware and ceramics, china, textiles, shoes, laundry detergents and paper) and which represent about 10% of all imports. Almost 16% of import flows are duty free, in particular raw materials and equipment used for power generation, medications, computers and telecommunications equipment. 18.3% of industrial goods' imports are subject to the lowest 5% customs duty, 23.3% are subject to the 10 % rate and 15.5% of these imports are subject to the 15% customs duty.

22. Within the framework of the Europe Agreement, tariffs on imports from the EU have been reduced substantially and most industrial imports now enter duty free. The tariff reductions also apply in trade with other preferential trade partners, in particular EFTA and CEFTA member countries. Consequently, at the beginning of 2000, the average rate applied on industrial imports was: 2.09% for EU partners, 2.08% for EFTA countries, 1.97% for Turkey, 0.92% for Hungary, 0.08% for Poland, 0.01% for Romania and 4.98% for the FYR Macedonia. Imports of industrial goods from the Czech Republic, Slovakia and Slovenia are free of duties.

23. In the first half of 1999, the average weighted duty on imports, excluding the preferential regime, was 8.56%, including 7.05% for industrial goods and 24.3% for agricultural products. Taking into consideration the preferential treatment provided under various free trade agreements, the average weighted duty would be even lower, since more than 60% of Bulgaria's trade is covered by agreements.

24. The most important actions in the field of foreign trade policy are aimed at the further reduction of the customs rates for certain kinds of products and narrowing the differentiation in the duties levied on certain goods imported from the various groups of countries. A study is currently under way to examine the possibility of eliminating or reducing customs duties on products that are not of strategic importance for manufacturing and have long been exempted from tariffs or listed with zero rate in the Customs Tariff. These tariff reductions are considered a means to facilitate the restructuring of the Bulgarian economy and increase stability and predictability of the country's foreign trade regime. Another important issue relates to insufficient information made available to the business community. This situation often prevents firms from fully using opportunities resulting from the preferential treatment.

25. In its latest Regular Report on Bulgaria's progress towards accession, the European Commission noted the advancement in trade liberalisation, including the reduction of licensing requirements, the elimination of all export quotas and important steps towards legal harmonisation. It considered, however, that Bulgaria still has to develop a clear foreign trade strategy and an effective policy for opening its economy and improving its internal and external economic stability.

Table 1: Preferential Import Tariffs (Average Rates)

| | EU | EFTA | Poland | Hungary | Turkey | FYR Macedonia |
|------------------------|-----------|-------------|---------------|----------------|---------------|--------------------------|
| Mineral Products | 2.98 | 2.98 | 3.82 | 1.41 | 3.21 | 8.52 |
| Chemicals | 1.49 | 1.47 | 0.17 | 0.42 | 1.48 | 3.07 |
| Plastic Materials | 1.61 | 1.61 | 0.23 | 1.19 | 2.23 | 3.76 |
| Leather and Furs | 1.92 | 1.92 | 0.00 | 0.41 | 2.27 | 4.12 |
| Wood and Wood Products | 3.73 | 3.73 | 0.00 | 1.63 | 3.29 | 7.54 |
| Textiles | 2.82 | 2.82 | 0.00 | 1.45 | 3.02 | 8.47 |
| Footwear | 5.20 | 5.20 | 0.00 | 1.72 | 4.02 | 12.21 |
| Ferrous Metals | 1.75 | 1.75 | 0.06 | 1.25 | 1.85 | 6.14 |
| Non-Ferrous Metals | 1.92 | 1.92 | 0.00 | 0.30 | 0.99 | 3.67 |
| Machinery | 2.15 | 2.15 | 0.04 | 0.59 | 1.74 | 4.49 |
| Transport Equipment | 1.33 | 1.32 | 0.47 | 1.17 | 1.19 | 5.80 |

1.4 Investment climate

26. Inflows of foreign direct investment (FDI) are indispensable for building a viable market economy and ensuring its successful development. Encouraging FDI is thus the major priority of Bulgaria's foreign economic policy. During 1992-1999, FDI totalled US\$2.78 billion, of which US\$2.01 billion (i.e., more than 70 % of the total) were invested only in the last three years. A considerable part of these investments was attracted through privatisation (US\$1.14billion), but important flows (US\$1.50 billion) correspond to newly created businesses and joint ventures. The year 2000 is expected to be the last year marked by substantial investment inflows from the privatisation process. Bulgaria has so far attracted only a limited amount of portfolio investment (US\$147 million--only 5% of all investments).

27. Bulgaria has nevertheless one of the most liberal foreign investment laws in the region. The basic FDI Law, which entered into force in 1997 and was amended in 1998, sets up a favourable investment climate, by granting national treatment to foreign investors, guaranteeing compensation in the event of expropriation, and allowing profit repatriation. There are no limits as regards the authorised shares and amounts of foreign participation in joint companies, and no controls on foreign exchange. Foreign businesses can open deposit accounts both in hard currency and in Bulgarian lev. Foreign companies that are registered as Bulgarian corporate bodies are free to purchase and own land for industrial and farming purposes. The law also provides for the primacy of international instruments, introduces safeguards against subsequent unfavourable changes in legislation, the observance of the principle of most favoured nation and the application of the principle of non-discrimination adopted under bilateral agreements on protection of foreign investment. The law expressly recognises intellectual property and treasury bonds as a foreign investment.

28. Several reasons explain currently low FDI inflows in Bulgaria: general political and economic instability in the region, the slower privatisation of large companies, the underdevelopment of the capital market, frequent changes in legislation, the existence of bureaucratic procedures, the limited purchasing

power of the population, persisting elements of unfair competition and widespread corruption. In 1999, the Foreign Investment Advisory Service (FIAS), a joint body of the International Financial Corporation and the World Bank, conducted a study of the administrative barriers to FDI in Bulgaria. The report examines in particular Bulgaria's regulations concerning work permits for foreign nationals, various types of registrations of companies, the regime for acquiring land, and general conditions for conducting transactions, including export and import procedures, application of standards, currency controls and reporting for statistical purposes. Following the proposals of this study, the government is preparing an action plan to reduce existing administrative obstacles to investment in Bulgaria.

29. The process of encouraging foreign investment in Bulgaria also includes concluding agreements on mutual protection and encouragement of investments with different countries. Such agreements were concluded or are ready for signing with more than 40 countries. In addition, several agreements and memoranda on co-operation and technical and financial co-operation were signed to attract additional foreign investment in the country.

II. Experience with regional co-operation: impact on trade and investment flows and remaining market access problems

30. The accession to European structures and integration into the new emerging European economic architecture remain Bulgaria's strategic goal. This process has far-reaching consequences for Bulgaria's economy, its industrial restructuring and also the development of trade policy.

2.1 Europe Agreement

31. Bulgaria's relations with the EU are based on the Europe Agreement (EA), which was signed on 8 March 1993 and entered into force on 1 February 1995. Under the provisions of the EA, Bulgaria and the EU agreed to establish a free trade area within a transitional 10-year period. The principle of asymmetry implies that the abolishment of EU import duties on Bulgarian exports of industrial products has been more rapid than the reduction applied by Bulgaria. In fact, the EU industrial tariffs were eliminated ahead of schedule by January 1998.

32. On the Bulgarian side, imports of industrial goods originating from the EU are subject to duties under three liberalisation schemes:

- zero customs duty for the goods under the first liberalisation scheme in force immediately after conclusion of the Agreement (certain kinds of raw materials, machinery and equipment, tools, fertilisers, plastics, rubber products and a few others);
- zero customs duty for the goods under the second liberalisation scheme (motor vehicles, certain non-organic acids, laundry detergents, plastic tubes and hoses, bands and plates made of non-porous plastics, whole animal skins from cattle, knit cloth, watches, watch and clock movements, etc.);
- 30% of the base duties as of 1 January 2000 on the goods under the third liberalisation scheme (medications, mineral fertilisers, chemical nitric fertilisers, natural and synthetic rubber, paper and cardboard, clothes and shoes, ferric alloys, semi-finished products, rolled iron and steel products, household appliances, electric motors and transformers, medical and surgical instruments, furniture, etc.).

33. Trade in agricultural products between Bulgaria and the EU is based on preferential tariff quotas, providing for improved market access to both sides. The tariff quotas for Bulgarian agricultural exports

will grow by 5% annually. As of 1 July 2000, for most products these quotas will be 25 to 28% larger than in the period between July 1995 and June 1997. Duties are set at 20 % of the conventional duties applied by the EU. The quotas on certain products, especially sensitive for Bulgaria (including the so-called “red fruits”), have been reduced to 40 to 50% of the MFN duties. The EU has been reducing its base customs duties on processed agricultural products by 7.5% annually since July 1997. The preferential customs duties on Bulgarian imports of agricultural products originating from the EU are set at 70 or 85% of MFN duties within the established quantitative limits.

34. A free trade area for industrial goods has been in fact already established. Tariff liberalisation was accelerated for sensitive goods such as steel and textiles by removing quantitative restrictions and customs duties on the export of these products to the EU. Certain safeguards however, have been maintained and can be used in the event of dumping or subsidies under article 113 of the EA. Minimum import prices with seasonal restrictions and compensatory fees are still applied to Bulgarian exports of agricultural products to the EU.

35. These trade policy developments have a considerable impact on mutual trade flows. The EU became the main trading partner and foreign investor in Bulgaria. In 1998, trade with the EU accounted for 47.6% of Bulgaria’s total foreign trade turnover--50.4% of its exports and 45.2% of its imports. Leaving aside mineral fuels, the share of the EU in Bulgaria’s imports represents 57.6%. For certain product categories, the EU represents between 70 and 100% of total trade. Data for 1999 indicate further growth of the EU share to 51.8% of Bulgaria’s total trade, (48.6% of imports and 52.6% of exports).

36. During the 1992-1999 period, Bulgaria’s trade with the EU increased almost two-fold from US\$2.5 billion to US\$4.7 billion. In the first half of this period, growth was mainly due to increased Bulgarian exports, while in the second half of this period, exports lagged behind imports. Between 1992-1999, Bulgarian exports grew by 80% while imports from the EU increased by 90%. The most important factor underlying the dynamism of Bulgarian exports was trade liberalisation and better access to EU markets. For example, between 1992-1995, exports of ferrous metals increased by 224%, chemicals by 42.8% and machinery and equipment by 26.2%. However, Bulgaria’s success was limited for exports of products considered sensitive in the EU.

37. Later, Bulgarian exports have been adversely affected by external factors, in particular financial and political crises as well as unfavourable conditions in international markets. The acceleration of the process of restructuring of the Bulgarian economy during the 1997-1999 has had a double effect: on the one hand it temporarily reduced export capacities of traditional products (metals and chemicals), and on the other hand, it increased the import needs for investment goods and equipment. During this period, Bulgaria succeeded in developing its textile exports. Their share in total exports grew from 19.3% in 1997 to 29.2% in 1999, though in value terms, the growth was recorded only in 1998 (increase of 20 % compared to the preceding year).

38. The EA has a more limited impact on Bulgarian exports of agricultural products. Despite lower customs duties and compensatory fees within the established quotas, the share of agricultural exports has been dropping in recent years, while Bulgarian imports of foodstuffs from the European countries have been increasing. It is clear that the granted concessions are insufficient for improving market access and for achieving a substantial increase in exports. In many cases the quotas remain unused since the lowering of the duties and compensatory fees has proved insufficient to make Bulgarian products competitive and serve as an incentive to exporters and producers of agricultural goods. The export quotas are fulfilled for live animals and meat, wine and unprocessed tobacco. However, these exports remain subject to various specific requirements (e.g. special marking of live animals, requirements for non-use of certain vaccines, sanitary requirements for meat plants, etc.).

39. Rapid growth of the EU share in Bulgarian exports indicates a relatively successful adaptation of Bulgarian producers to the West European market's requirements. However, in contrast to some other Central European countries, Bulgaria's integration to the European markets has not been sufficient to mitigate the adverse effects of the Russian financial crisis and the Kosovo conflict. The main reason for this still strong vulnerability is the slow progress in Bulgaria's economic reform and industrial restructuring.

40. Bulgaria's integration into the EU also has far-reaching consequences for the country's economic and trade policies. The EA has set in motion, not only trade liberalisation for the free movement of goods, but also the gradual creation of free movement of services, capital and people. The beginning of the accession negotiations and the starting discussions on the chapter of external relations indicate considerable progress in the adaptation of Bulgaria's trade policy to the EU requirements. The acceptance of commercial regulations applied by the EU to third countries and the harmonisation of business practices are not expected to create significant difficulties to Bulgaria.

41. In many respects, Bulgaria has already achieved a higher degree of economic integration into the EU than several current EU members at the time of their accession (such as Greece and Spain). In this sense, the rapidly increasing trade flows with EU member countries and the removal of most tariff and non-tariff restrictions to imports from the EU represent a clear indication of the capability of the Bulgarian economy to cope with intensified competitive pressures.

2.2 *European Free Trade Agreement*

42. Bulgaria is a party to a plurilateral free trade agreement with EFTA member countries--Switzerland, Liechtenstein, Norway and Iceland. Pursuant to this agreement, as of 1 January 1998, Bulgarian industrial goods can be imported into the EFTA free of customs duties. Bulgaria equalized its preferential treatment of the EU and EFTA in the imports of agricultural goods and unilaterally lifted customs duties on the imports of certain kinds of textile products originating from EFTA to establish a customs regime equal to one provided to EU partners. The continuing liberalisation with EFTA aims at establishing a free trade zone between the five countries by January 2002.

43. EFTA's share in Bulgaria's foreign trade is relatively low (1.3 to 1.5%). In the four years that have followed the accession of Austria, Sweden and Finland to the EU, Bulgaria's trade with EFTA has remained almost unchanged. Until 1998, Bulgarian exports to EFTA recorded a gradual decline while imports marked an increase. This trend was reversed in 1999 with Bulgarian exports growing by 68% and its imports decreasing.

2.3 *Central Europe Free Trade Agreement*

44. On 17 July 1998 Bulgaria signed an agreement to join the CEFTA. CEFTA member countries set up a transition period during which they committed themselves to gradually eliminate all import and export duties and equivalent fees, quantitative restrictions and other similar measures and to refrain from introducing such measures in their mutual trade. The implementation of this commitment for specific products and the schedules for the elimination of customs duties are negotiated on a bilateral basis.

45. As of 1 January 1999, customs duties on more than 80% of all industrial goods were lifted. The duties levied on the remaining products, currently standing at 25 to 60% of the base rates, will also be eliminated, and the mutual trade in industrial goods will be free of all duties as of 1 January 2002. The Agreement creates three groups of agricultural products:

- goods with zero duties;
- goods traded at lower uniform duties; and
- goods for which the countries provide each other concessions on a bilateral basis.

46. The parties also signed a supplementary protocol No.8 amending protocol No.7 to the CEFTA Agreement, which refers to the rules of origin and the methods of their administration.

47. CEFTA countries were Bulgaria's traditional trading partners, but in recent years their share in the country's foreign trade considerably diminished, constituting between 4 and 5.5% of total trade flows. In the past two or three years, Bulgaria's exports have been falling (to 4.3% of total exports in 1999) while imports have increased (reaching 6.4% of total imports). Bulgaria's most successful exports to these countries are agricultural products, foodstuffs, chemical products, machinery and transportation equipment. Given similar difficulties encountered by the countries in the region to adapt to free market competition, they continue to protect some sensitive products, in particular agricultural products, iron and steel, textiles, clothing and paper.

48. It was anticipated that Bulgaria's accession to the CEFTA would enhance its trade with those countries. However, the increase occurred mainly for imports from CEFTA countries. The reduction or elimination of import duties on some Bulgarian industrial goods have improved the country's market access and removed its discrimination compared to other Eastern European products but have not led automatically to a substantial increase in demand for Bulgarian products. This is due to Bulgaria's lower export potential, reflecting its slow economic recovery and slow progress in economic reform compared to some other CEFTA countries.

49. At present, Bulgaria's trade with CEFTA countries is less important for the country than for founding CEFTA members. However, the CEFTA market should not be underestimated. The accession to the CEFTA implies an access to a market of 100 million people and provides opportunity for co-ordinated and joint actions with respect to third countries, and to international economic organisations. It can also contribute to the creation of common positions for EU candidate countries within the process of the European integration. Last but not least, becoming part of a larger market space might boost the interest of Bulgaria for potential foreign investors.

2.4 Regional co-operation in South-East Europe

50. The countries of South-East Europe feature prominently in Bulgaria's foreign trade, not only in trade volume (17-18% of total trade including trade with Greece and Turkey), but in Bulgaria's trade surpluses. These countries are Bulgaria's traditional trading partners, and mutual trade relations benefit from several favourable factors, such as common borders, similarities in the socio-economic development, geographic location conducive to large-scale infrastructure-related projects, etc. At the same time, however, a large part of these countries trade flows are directed outside of the region. The need to overcome the consequences of the Kosovo crisis and the implementation of the Stability Pact now create better conditions for accelerating liberalisation of intra-regional trade and economic relations. Bulgaria is promoting the establishment of free trade zones with its partners in South-East Europe.

2.4.1 Turkey

51. Bulgaria signed an agreement on a free trade zone with Turkey on 11 July 1998. 90% of Bulgaria's exports of industrial goods to Turkey have become duty-free as of its entry into effect on 1 January 1999. The two countries have undertaken to fully liberalise their trade in industrial goods by

January 2002. As far as trade in agricultural products is concerned, the two countries will gradually reduce customs duties within the framework of agreed tariff quotas.

52. After the first year of the agreement, the anticipated positive effect was not completely achieved. Although there was no substantial increase in mutual trade flows, maintaining the levels of the previous year (about US\$455 million) can be considered a success, given the general drop in trade. The rapid growth of Turkish exports to Bulgaria (by 30%) indicates the high degree of liberalisation of the Bulgarian market. Bulgarian exporters have been less successful in using export opportunities created by the Agreement. Some more favourable developments in this area seem to be emerging, as some revival in Bulgaria's exports was observed in the last quarter of 1999 and the beginning of 2000.

2.4.2 *FYR Macedonia*

53. The agreement on free trade with the FYR Macedonia was signed on October 13, 1999 and entered into effect on 1 January 2000. It provides for the development of a free trade zone by January 2005. While trade between the two countries is rather limited (about US\$130 million, or 1.5% of Bulgaria's total trade), the liberalisation of bilateral trade should improve mutual trade opportunities. The FYR Macedonia is becoming an important partner of Bulgaria: in 1999, Bulgarian exports grew by more than 30% and imports of certain agricultural products from the FYR Macedonia are increasingly important for supplying the Bulgarian food industry.

54. Recent initiatives aiming at the establishment of free trade areas with different partners provide evidence that an active trade policy, which is successfully reducing or removing tariff and non-tariff trade barriers on a bilateral or plurilateral basis, is a step in the right direction. At present, the creation of free trade zones with other Balkan states is under consideration. Some progress has also been achieved in the preparatory work on free trade agreements with Israel, Morocco, Lithuania, Latvia and Estonia.

Table 2: Bulgarian Exports (USD mil.)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total | 3922.1 | 3721.0 | 3985.4 | 5354.7 | 4890.2 | 4913.9 | 4193.5 | 3967.2 |
| OECD | 1654.9 | 1606.5 | 1987.9 | 2692.0 | 2524.4 | 2842.7 | 2662.6 | 2642.4 |
| EU | 1152.5 | 1049.1 | 1418.7 | 2016.1 | 1912.4 | 2128.7 | 2114.1 | 2085.3 |
| EFTA | 143.9 | 111.9 | 108.9 | 82.0 | 47.6 | 44.3 | 34.4 | 57.8 |
| USA | 80.5 | 126.0 | 206.2 | 162.9 | 113.1 | 128.8 | 110.5 | 146.2 |
| Turkey | 248.5 | 283.1 | 201.8 | 386.2 | 384.3 | 442.3 | 334.9 | 287.8 |
| CEFTA | 204.0 | 171.9 | 170.2 | 192.6 | 170.2 | 165.6 | 207.3 | 169.7 |
| CIS | 704.0 | 708.9 | 747.9 | 910.9 | 927.0 | 855.0 | 499.8 | 339.1 |
| Russia | 681.9 | 505.1 | 538.3 | 537.6 | 480.0 | 391.8 | 223.3 | 188.9 |
| Yugoslavia | 172.4 | 130.3 | 145.2 | 86.2 | 231.5 | 124.6 | 77.7 | 163.1 |
| FYR Mac. | 158.6 | 227.4 | 411.0 | 435.6 | 148.6 | 98.2 | 76.4 | 105.3 |

Table 3: Bulgarian Import (USD mil.)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total | 4468.3 | 4757.1 | 4184.8 | 5657.6 | 5073.9 | 4885.8 | 4956.7 | 5468.7 |
| OECD | 1956.7 | 2265.8 | 1892.9 | 2519.4 | 2144.2 | 2254.9 | 2726.1 | 3163.2 |
| EU | 1388.2 | 1506.6 | 1371.9 | 2100.7 | 1780.3 | 1823.1 | 2239.3 | 2658.8 |
| EFTA | 268.3 | 413.2 | 258.0 | 105.2 | 86.4 | 86.8 | 82.9 | 82.1 |
| USA | 147.2 | 184.3 | 124.1 | 119.4 | 111.7 | 181.2 | 201.3 | 172.3 |
| Turkey | 69.4 | 76.7 | 81.9 | 100.4 | 96.0 | 101.6 | 122.1 | 166.7 |
| CEFTA | 241.3 | 225.7 | 228.6 | 240.1 | 230.4 | 252.5 | 274.6 | 348.5 |
| CIS | 1026.7 | 1716.8 | 1324.1 | 1857.5 | 1860.5 | 1604.7 | 1232.1 | 1292.1 |
| Russia | 990.4 | 1393.4 | 1104.0 | 1587.9 | 1694.2 | 1374.8 | 1016.4 | 1125.4 |
| Yugoslavia | 59.4 | 4.2 | 1.0 | 3.0 | 55.1 | 37.5 | 34.5 | 15.4 |
| FYR Mac. | 34.9 | 77.9 | 128.8 | 176.1 | 31.6 | 26.3 | 36.2 | 25.1 |

Source: Bulgarian National Statistical Institute

III. Multilateral trading disciplines: Bulgaria's experience with the WTO

55. One of the top priorities of Bulgaria's trade policy is to participate actively in the further liberalisation of world trade. Bulgaria's WTO membership provided legal foundations for its trade relations with the rest of the world. The main advantages resulting from the accession to the WTO are better access for Bulgarian exports to the WTO members' markets based on progressive lowering of tariff and non-tariff barriers and national treatment.

56. Bulgaria's active participation in the WTO and observance of its commitments made during the accession process are also important for the country's policy-making and its reform strategy. WTO membership is instrumental in achieving national economic goals, as compliance with multilaterally accepted trade rules and disciplines guarantees the pursuit of a sound trade policy and respect for principles of transparency and predictability.

57. In setting its position within the WTO framework, Bulgaria has taken into account its national interests and also the perspective of its future accession to the EU. The changes in the country's trade regime, in particular tariff adjustments, reflect the commitments undertaken in the WTO, in various preferential trade agreements, and in agreements with the international financial institutions.

58. Bulgaria is prepared to participate actively in the forthcoming negotiations on the liberalisation of trade in agricultural products and is interested in establishing a fair and market-oriented system of trade in this area. After eliminating the previous government-run system of production and trade in agricultural products and adopting market principles, Bulgaria is ready to take part in reducing protection and support in this sector. Bulgaria would not have great difficulties in accepting restrictions on the support of agriculture, as it does not apply any export subsidies for agricultural products. In this area, Bulgaria should take into consideration its ongoing negotiations with the EU and therefore harmonise its negotiating position. At the same time, given specific features of its economy, Bulgaria would support maintaining certain protective measures responding to its situation of a transition economy.

59. Bulgaria is also working on its negotiating position in other areas to be discussed within the WTO. It is in particular interested in achieving a higher degree of liberalisation and market openness within the framework of the General Agreement on Trade in Services (GATS). The country's current legislation in this area complies with all relevant requirements, and it should not face substantial obstacles to join future agreements on improving access to the services market. Bulgarian government and non-government experts have also examined the issues envisaged for further negotiations within the WTO, in particular investment, competition, trade facilitation and transparency of government procurement.

60. Bulgaria also participates in the WTO negotiations on the further liberalisation in the area of basic telecommunications. Bulgaria already committed itself to liberalise its public voice phone, telegraph, telex services, digital and analogue cellular phones by 2003. These agreements supplement Bulgaria's list of commitments on trade in services undertaken at the time of its accession and entered into force in February 1998 and March 1999.

61. As regards trade related aspects of intellectual property rights (TRIPS), Bulgaria's legislation was recently revised and the patent and copyright laws and criminal penalties have been brought in line with European law. Bulgaria is a member of the World Intellectual Property Organisation and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Co-operation Treaty; and the Universal Copyright Convention. When joining the WTO, Bulgaria agreed to implement the Agreement on TRIPS without a transitional period. Bulgaria has demonstrated an interest in widening

the scope of protection of geographic designation beyond wines and spirits to other products. Bulgaria recently introduced special regulations concerning border control and protection of intellectual property rights. The country's legislation in this area and its implementation were also reviewed by the WTO.

62. Recognising the importance of information technologies for successful economic development and the need to adapt to world economic trends, Bulgaria has started preparatory work for joining the ministerial declaration on trade with IT products adopted at the WTO Ministerial Conference in Singapore in 1996.

63. Bulgaria actively participates in other WTO activities. The WTO Committee on Regional Trade Agreements started its screening process for evaluating Bulgaria's free trade agreements and its compliance with relevant GATT 1994 principles. Bulgaria held bilateral negotiations on the terms for accession of Georgia, Albania, Armenia and Moldova to the WTO, seeking to improve market access for its traditional exports to these countries. A similar process is under way within the framework of WTO negotiations with the Russian Federation, and preparatory work in this area has been started for other countries, in particular Ukraine and Kazakhstan.

64. Given Bulgaria's substantial advancement in the economic reform process, the adjustments in the national legislation in view of its harmonisation with EU law and different obligations accepted under various preferential agreements, the country is not expected to encounter major difficulties in accepting new disciplines stemming from future WTO negotiations. When accepting new specific commitments, Bulgaria should nevertheless seek to maintain a balance between its concessions regarding its market openness and its needs for an improved access to foreign markets.

IV. Concluding remarks

65. This analysis of trade liberalisation in Bulgaria shows that the country no longer lags behind other East European countries in the acceptance of the legislative and regulatory framework set up under the EA and corresponding to international trade principles. In some cases, the level of liberalisation reached in Bulgaria even exceeds the performance of the first-wave candidate for EU membership. In contrast to the Central European and Baltic countries, which liberalised their domestic prices, abolished state orders, and freed trade and access to foreign exchange in the early period of their transition, Bulgaria adopted a rather uneven and gradual liberalisation.² This was due to the emergence of temporary difficulties and imbalances in the national market forcing Bulgaria to step back in its reform process.

66. During the last three years, the liberalisation process was re-launched and successfully pursued, allowing the EBRD to conclude that Bulgaria achieved substantial progress in its liberalisation of trade and foreign exchange regimes and to award Bulgaria a high grade in this area (4+)³. Furthermore, members of the Bulgarian International Business Association (BIBA), a group of foreign investors in Bulgaria, stated in their "White Paper on Foreign Investment - 1999" that "the Bulgarian market is a 'free-market' by all definitions of the term. Unfortunately, this also implies that the market is open to 'unfair' competition. A strategy must be developed by Bulgaria to protect the local market from what can effectively be termed as "dumping".⁴

² EBRD Transition Report 1999, p.30

³ EBRD Transition Report 1999, p.24-25

⁴ BIBA White Paper on Foreign Investment, 1999, p.80

67. Gradual import liberalisation has been viewed as an impetus to the development of a competitive domestic market, especially with respect to domestic producers who enjoy monopoly positions. The favourable effect of trade liberalisation was expected to materialise in lower market prices and hence in increased consumer buying power. A stronger presence of foreign companies has to contribute to the process of restructuring of the national economy, accelerating the elimination of non-viable businesses and redirecting funds towards more efficient firms. At the same time, the authorities wish to ensure that trade policy and the customs tariff structure correspond to the needs of the national economy and ensure an adequate protection of the domestic production from unfair competition.

68. Bulgaria has gradually established clear trade rules and achieved stability and predictability in the domestic market. It continues to encourage competition by developing its trade relations, including within the framework of bilateral and plurilateral trade agreements. The main instruments in this area have been the lowering of trade barriers, the restriction of illegal trade practices and the facilitation of exports. In all related fields, Bulgaria already adopted most of the requested legislation and implemented a wide range of regulations in view of constructing a national market, which should become a part of the EU internal market in the future. The stable and liberal trade regime boosts Bulgaria's attractiveness to foreign investors and improves the productivity and competitiveness of national producers. Better access to foreign markets for Bulgarian products plays a crucial role in achieving sustainable economic growth.